This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 003829

SIPDIS

ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD

E.O. 12958: DECL: 11/25/2015
TAGS: EPET ENRG EINV VE
SUBJECT: EXXONMOBIL FEELING THE HEAT

REF: A. CARACAS 03758
¶B. BROWNFIELD E-MAIL 12/20

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

¶1. (C) SUMMARY: ExxonMobil Venezuela (XM) President Tim Cutt (strictly protect) told the Ambassador on December 20 that his company is under increasing pressure from the GOV to sign a transitory agreement by December 31. The GOV has publicly stated that it will seize fields if the operators do not sign the transition agreements by the end of the year. Although the GOV has stated there would be repercussions if XM did not sign, it is not clear what they will be. Cutt said it was extremely unlikely XM would sign by the deadline. END SUMMARY

AND THEN THERE WAS ONE

¶2. (C) As expected (see Reftel A), the Italian oil company ENI, Total, Chevron and Sansom, signed transition agreements on December 19 to migrate their Operating Service Agreements (OSA) to joint venture companies. Under the joint venture structure, state-owned oil company PDVSA will exercise majority control. As a result, transition agreements now cover 31 of the 32 OSAs with over 97 percent of the OSA production. The only OSA that is not covered is Quiamare-La Ceiba (QLC), a small field in which Repsol holds 75 percent and Ampolex Venezuela holds 25 percent. Ampolex Venezuela is an XM subsidiary that was originally a Mobil asset. Repsol is the field's operator.

¶3. (C) XM Venezuela President Tim Cutt called the Ambassador from the United States on December 20 to discuss the state of play on GOV attempts to pressure XM into signing a transition agreement. Energy Minister and PDVSA President Ramirez in press statements on December 19 stated Repsol is ready to sign the agreement but XM is refusing to do so. He also said that if XM does not sign, there would be larger repercussions for its operations in Venezuela.

XM OPTIONS

¶4. (C) Cutts described QLC as a small field with declining production. (NOTE: XM Venezuela's Government Relations Manager Carlos Rodriguez told Petroleum Attach (Petatt) he believes production is currently around 12,000 barrels per day. END NOTE) Cutts told the Ambassador that it is unlikely that a joint venture with PDVSA would give XM enough time to recover its investment before the field plays out. As a result, XM was almost certainly not going to sign a transition agreement for QLC.

¶5. (C) Cutts told the Ambassador that XM was negotiating to sell their QLC share to Repsol. He stressed that the information was business confidential. He stated XM wanted its actual capital investment costs in QLC rather than a return on its investment. Repsol is interested in buying out XM but is not willing to take a loss. Negotiations are on-going and it is not clear if an agreement will be reached before the December 31 deadline. Since it is extremely unlikely that XM would sign a transition agreement by the deadline, XM is reserving their right to international arbitration. Cutts said he was expecting an interesting day on January 2.

POSSIBLE REPERCUSSIONS

¶6. (C) The Ambassador asked if the failure to sign had had any impact on XM's other operations in Venezuela. Cutts replied that so far there have been none. He stated he spoke with Energy Vice Minister Bernard Mommer last week after Mommer announced that XM's contractual royalty rate was no longer valid as of March 15, 2006. When Cutts asked what the new royalty rate would be, Mommer replied 16.67 percent. In addition, Mommer said he was open to XM paying the new rate through payment in kind (increasing production to pay the royalty). Cutts said it was a better signal than XM expected but it is not clear if the option is still open in light of QLC.

¶7. (C) Cutts stated the big question was whether the GOV would go after XM's Cerro Negro strategic association in

response to its refusal to sign a transition agreement. (NOTE: XM has a 41.67 percent stake in Cerro Negro. Its partners are PDVSA (41.67 percent) and BP (16.67 percent). Cerro Negro's average production in November of extra heavy crude was 119,335 barrels per day with an average syn crude production level of 111,613 barrels of 15.5 API oil. END NOTE) When the Ambassador asked if this would be a breach of contract, Cutts replied that opinions among attorneys differed. PDVSA could make a case that the contract permits them to replace XM as the operating partner after two years. The contract also gives XM veto power over who PDVSA picks to replace them. Cutts said it was basically a legal issue.

¶8. (C) Cutts also said PDVSA might pressure XM to close down its exploratory drilling at the La Ceiba field if they wanted to do mischief. XM has two exploratory wells in production at La Ceiba and they are currently producing income for PDVSA at absolutely no cost. XM believes the La Ceiba contract permits them to continue production and drilling. However, La Ceiba may offer PDVSA another way to punish XM.

XM PUBLIC RELATIONS STRATEGY

¶9. (C) Cutts promised to give the Embassy a heads up before making any announcements. He also said XM did not plan on making any announcements unless they sold their QLC share to Repsol. He added that XM would respond to any PDVSA announcements. He ended the conversation by emphasizing that XM was reserving its right to arbitration and building a case.

¶10. (C) Cutts remarks on XM's PR strategy appear to have been overtaken by events. Globovision, Venezuela's version of CNN, posted a story on its website the evening of December 20 stating that XM was claiming they were being pressured by the GOV to sign the transition agreement. Rodriguez told Petatt that XM immediately contacted Globovision and asked them to remove or modify the story. Globovision complied but the Venezuelan print media picked up the story and placed it in their December 21 papers. Rodriguez told Petatt that he would contact XM headquarters and request a written statement denying the stories. He stated the story appears to have originated with a French press agency.

BROWNFIELD